

The Conference Board Economic Forecast for the U.S. Economy April 10, 2019

Why Slower Growth Does Not Need to End in a Downturn

The US Economy has slowed a great deal since the middle of 2018, from an average of more than 3.5 percent growth then to just over 2 percent in the first half of 2019. Still the economy is set to enjoy solid though not spectacular performance this year. Overall 2019 data so far point to more challenging business conditions than 2018. Consumers remain optimistic thanks to low unemployment and fast wage growth, but their level of optimism has dimmed since October. Retail sales and consumer demand has also faltered during the same period.

Businesses face threats to profitability on multiple fronts. Both domestic and external demand are slowing. Effects from tax cuts have mostly faded, and the increase in wage bills without any pickup in inflation is narrowing business margins.

One event that has raised fears of recession is the recent temporary inversion of the yield curve. Typically, when the interest rate on the ten-year treasury bond moves below that of the Federal Reserve's policy rate, as happened in late March, recessions often follow within a year.

The Fed has signaled that it will postpone further rate increases until after this year, but the reasons behind this shift do not necessarily imply that the Fed believes the economy faces elevated recession risks. Instead, the bank is anticipating lower future inflation risks, and it is even showing more willingness to allow inflation to temporarily rise above its current two percent target. The inversion represents a logical response to these recalibrations, and firms should not view near-term recession risks as elevated.

The growth slowdown primarily reflects the economy's reversion to limits imposed by labor and capital constraints. Labor market tightness has increased in recent months with the number of workers on the sidelines shrinking and working age population growth stalling due to demographics. To increase growth potential for the medium-term, firms will have to execute strategic investments that boost productivity. If companies succeed at that, slower growth does not need to produce a downturn.

The U.S. Economic Forecast

THE CONFERENCE BOARD ECONOMIC OUTLOOK, 2018-2019
Percentage change, seasonally adjusted annual rates

	first half	2018		2019			2018	2019	2020
		III Q*	IV Q*	I Q	II Q	second half	ANNUAL	ANNUAL	ANNUAL
Real GDP	3.2	3.4	2.2	2.0	2.6	2.1	2.9	2.4	2.2
Real Consumer Spending	2.2	3.5	2.5	1.7	2.8	2.6	2.6	2.6	2.5
Residential Investment	-2.4	-3.5	-4.7	1.0	0.7	1.0	-0.3	-0.9	1.4
Real Capital Spending	10.1	2.5	5.4	4.2	5.1	5.5	6.9	4.9	5.1
Exports	6.4	-4.9	1.8	2.5	3.4	3.6	4.0	2.2	3.7

* Actual data